

OPENING STATEMENT
SENATOR NORM COLEMAN
RANKING MINORITY MEMBER
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
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Today's hearing represents the culmination of the Subcommittee's extensive, bipartisan investigation into the impact of speculative trading on U.S. energy markets. Our inquiry builds on the Subcommittee's prior focus on this issue, including a February 2006 field hearing—held in my home state of Minnesota—that focused on the impact of high natural gas prices on American consumers, as well as the Subcommittee's June 2006 staff report. These efforts, including today's hearing, have been bipartisan from their inception, and I would like to thank Chairman Levin and his staff for their hard work and dedication in ensuring the fairness and integrity of our energy markets.

As Senator Levin detailed in his opening statement, Amaranth Advisors LLC was a major player in the natural gas financial markets for much of 2006. Throughout last year, Amaranth traded heavily on both the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE), accumulating massive positions in support of its belief that winter gas prices would continue to rise compared to summer gas prices.

In deploying its strategy, Amaranth would often trade thousands, sometimes tens of thousands, of natural gas contracts in a single day—an enormous volume of trading on any scale. It was not unusual for Amaranth to hold as much as 40, and sometimes more than 50, percent of the NYMEX open interest in certain contracts. At one point, Amaranth actually accumulated enough January 2007 contracts on NYMEX and ICE to equal the total volume of natural gas eventually used that month by residential consumers nationwide.

As we noted in the Minority's Views attached to the Subcommittee's Report, different conclusions can be drawn from the same set of facts. Amaranth accumulated such large positions and traded such large volumes of natural gas that, at times, Amaranth appears to have moved the entire futures market. At other times, however, Amaranth appears to have been responding to the market, rather than driving it.

Nevertheless, Amaranth appears to have pursued its strategy to excess by any measure. When last year's hurricane season ended without a major event, it became clear that market fundamentals no longer supported Amaranth's bet on winter gas, and traders moved quickly and aggressively against Amaranth's positions.

In just a couple of weeks, from the end of August through mid-September, Amaranth's natural gas positions lost more than \$2 billion in value. These tremendous losses ultimately necessitated Amaranth's liquidation of its entire natural gas portfolio. When the dust finally settled, on September 20, Amaranth reported the single greatest losses ever by a hedge fund, even more than the losses of Long Term Capital Management (LTCM).

Remarkably, the financial markets met one of the largest losses in financial history with relative calm. Amaranth privately negotiated the takeover of its positions, and, in contrast to the debacle involving LTCM, the Federal Reserve did not have to intervene to prevent financial panic.

The markets' ability to absorb Amaranth's losses is a sign of their vitality and strength. But to shrug off Amaranth's collapse as a rare and victimless event is both short-sighted and irresponsible. Amaranth's collapse fired a warning signal, illuminating a troubling level of high-risk, speculative trading that occurs on U.S. energy markets, and underscoring the need for greater transparency on over-the-counter, electronic energy exchanges.

Today, more than 500 energy-related hedge funds deploy a combined \$67 billion in speculative capital in our energy markets. To be sure, these traders bring important liquidity and vitality to the markets in which they invest. But I am concerned that, at times, speculative trading overwhelms the real buyers and sellers, like the utilities and industrial users of natural gas. Massive levels of speculation not only increase market volatility, but can also contribute to rising energy prices, which are ultimately passed on to hard-working American families.

I am reminded of the testimony I heard during the Subcommittee's field hearing last year in St. Paul. Too many Americans find themselves in circumstances similar to Deidre Jackson and Lucille Olson, who testified about the burdens caused by rising natural gas costs. In the case of Ms. Olson, her natural gas bill represented 30 percent of her monthly income. As a senior citizen trying to cope with the high costs of health insurance and prescription drugs, last year's spike in natural gas prices made it increasingly difficult for her to make ends meet. Ms. Jackson, a working mother of three and a college student, shared with me the financial jeopardy she faced as a result of a home heating bill that had increased by more than 100 percent. These examples serve as powerful reminders of the real-world impacts of large spikes in natural gas prices. We must not forget that high energy costs place millions of Americans in financial jeopardy every year.

Nor should we overlook the impact that unchecked and unregulated speculation could have on the financial markets themselves. I am concerned that last year several large speculative traders appear to have impacted the natural gas market as a whole. Our financial system depends on investor confidence in the fairness and efficiency of our markets. If investors believe that speculative trading is able to separate prices from supply-and-demand fundamentals or worse, that a few dominant traders are able to cause unwarranted price changes, then the very integrity of our financial markets is threatened.

More than ever before, it is imperative that the CFTC and other market regulators have the statutory authority and budget necessary to police our energy markets. Despite this pressing need for oversight, however, the CFTC's ability to conduct market surveillance has been eroded. Its ability to prevent excessive speculation and price manipulation has been diluted. This is a direct result of the fact that more and more energy trading takes place on unregulated, over-the-counter, electronic exchanges. It is simply unacceptable that this rapidly increasing segment of our energy markets remains largely unchecked.

As I stated earlier, Amaranth fired a warning shot that market participants and market regulators must not ignore. If they do, I can assure you that Congress will not. As a threshold matter, regulators should develop a clear definition of “excessive speculation.” Otherwise, they will continue to have difficulty monitoring and preventing price distortions.

More important, as we noted in the Minority’s Views on the Subcommittee’s Report, Congress must ensure that any proposed cure is not worse than the disease. If we extend CFTC oversight and regulation to electronic, over-the-counter exchanges, we must avoid unintended consequences. These exchanges have brought vital liquidity and increased transparency to our energy markets. Therefore, we cannot create incentives for traders to shift their business from over-the-counter, electronic exchanges like ICE, to far less transparent and unregulated energy markets. Moreover, we cannot create incentives for the exchanges to move to less regulated offshore markets.

I look forward to the testimony from today’s witnesses, and I again thank the Chairman for leading this important bipartisan effort. Today’s hearing is an important reminder that the fairness of energy prices and the integrity of our financial markets are neither Democrat nor Republican issues, they are American issues.

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